

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Gloria Romero
Member, Bob Huff
Member, Carol Liu

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9:30 a.m.
State Capitol, Room 3191

PART B – HIGER EDUCATION

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I. Overall Enrollment Levels Specified in the Budget Act.

Neither the 2008-09 nor the adopted 2009-10 Budget Act provides any augmentations to specifically support enrollment growth at the University of California (UC) or the California State University (CSU) and instead contains General Fund budget reductions.

UC and CSU were given latitude in the current year regarding the allocation of budget reductions and staff expects this practice to continue for 2009-10.

At present, the 2009-10 Budget Act, as adopted by the Legislature in February 2009, specifies that the Legislature expects the University of California to enroll 198,520 state-supported full-time equivalent students (FTES) and the California State University to enroll 342,893 FTES. These are the same enrollment levels that were budgeted for 2007-08, which, as illustrated on the following pages, are far below current-year or budget-year enrollment expectations.

Given the uncertainty about how the universities were going to address enrollment levels, the 2008-09 Budget Act included the following language:

"The University of California (and California State University) shall report to the Legislature by March 15, 2009, on whether it has met its 2008-09 academic year enrollment goal(s)."

Question for the Committee: Should the Budget Act include specific FTES "targets" or simply require the UC and CSU to report to the Legislature on whether it has met its 2009-10 academic year enrollment goals?

Segments' Plans for Enrollment in 2009-10:

- ***University of California.*** UC Regents adopted a plan in January to reduce enrollment of new California resident freshmen by a total of 2,300 FTES. This would represent a 6 percent reduction from the size of the 2008-09 freshman class. The plan would increase enrollment of community college transfer students by 500 FTE students (a 3 percent increase) and maintain the same number of graduate students.
- ***California State University.*** CSU Trustees adopted an enrollment plan in November with the goal of reducing enrollment in the budget year to the level budgeted in 2007-08. This would reduce the enrollment level by approximately 3 percent to 4 percent, compared to 2008-09. This would mainly affect incoming undergraduate and graduate students.

Enrollment at University of California (UC) and California State University (CSU)

Full-Time Equivalent Students

	2007-08		2008-09 Estimate	2009-10	
	Budgeted	Actual		Governor's Proposal ^a	Segments' Plans
UC	198,455	203,906	209,816	198,669	210,816
CSU	342,893	353,915	355,685 ^b	343,233	342,893

^a Governor's budgeted levels reflect 2007-08 budgeted levels plus a proposed small increase in health sciences enrollment at both segments.

^b Legislative Analyst's Office estimate.

LAO Recommendation:

The LAO recommends that the Legislature adopt specific 2009-10 enrollment targets for UC and CSU in order to clarify the state's goals for enrollment, set expectations for the segments, and provide a clear enrollment base to work from in subsequent years. Specifically, the lack of budgeted enrollment levels in the 2008-09 budget creates confusion about how much enrollment the state funded in the current year.

Action Item: Staff Recommendation

However, staff disagrees with the LAO and recommends that the committee delete all references to enrollment targets. Given the confusion that surrounds this issue, staff recommends that, once the state is in a fiscal position to provide enrollment growth funding, this issue be revisited and UC and CSU's enrollment numbers be rebenchmarked to account for the changes that have occurred. To implement this recommendation, staff recommends that the following Budget Bill Language be adopted:

Replace Provision 10 of Item 6440-001-0001, as follows:

"The University of California shall report to the Legislature by March 15, 2010, on whether it has met its 2009-10 academic year enrollment goal(s)."

Replace Provision 6 of Item 6610-001-0001, as follows:

"The California State University shall report to the Legislature by March 15, 2010, on whether it has met its 2009-10 academic year enrollment goal(s)."

II. Expansion of Program in Medical Education (PRIME).

As part of the 2009-10 Budget Act adopted by the Legislature in February 2009, funding to support the enrollment of a new PRIME student cohort was deleted "without prejudice."

The Subcommittee is now considering the University of California's request for (1) \$1.46 million to support the next new cohort of 57 PRIME students at the full marginal cost of medical school instruction (\$25,624 per FTES).

Funding for this program traditionally provides an incremental "bump" of approximately \$15,000 per FTES on top of the standard rate that UC receives for each new student. Given that the 2009-10 Budget Act failed to appropriate any additional funds for enrollment growth, UC and the Department of Finance are requesting that the 2009-10 PRIME cohort be funded at the full marginal cost of medical school instruction (over \$25,000 per FTES).

The 2009-10 Budget Act already allocates \$2.025 million to continue supporting the existing PRIME cohorts (totaling 135 FTES from the prior three years.)

Background. The Governor and the Legislature supported the creation of the UC PRIME programs in an effort to address the need for culturally sensitive physician care for an increasingly diverse state. PRIME incorporates specific training and curriculum designed to prepare future practitioners to address disparities that exist in the provision of health care throughout the state, thus seeking to improve the quality of health care available for all Californians. The special training provided to PRIME students ranges from enhancing cultural sensitivities to the use of technology to overcome geographic barriers to quality care. Given that students who enter medical school with an interest in caring for underserved communities are more likely than other students to practice in such communities, the PRIME programs also help address regional health disparities. PRIME programs are operational at all five medical schools and are focused as follows:

- *PRIME-RC (Rural California) at Davis.* Program focuses on telemedicine and a commitment to outreach and rural health care.
- *PRIME-LC (Latino Community) at Irvine.* Emphasizes Latino health issues with training in Spanish language and Latino culture.
- *PRIME at Los Angeles.* Provides opportunities and training related to serving diverse medically-disadvantaged populations.
- *PRIME-HEq (Health Equity) at San Diego.* Focuses on health disparities and minority health problems to help students work toward and contribute to achieving equity in health care delivery.
- *PRIME-US (Urban Underserved) at San Francisco.* Offers students the opportunity to pursue their interests in caring for underserved populations in urban communities.

Staff recommends that this issue be held open pending the May Revision.

III. Expansion of Nursing Enrollments.

As part of the 2009-10 Budget Act adopted by the Legislature in February 2009, funding to support the expansion of enrollments in nursing at UC and CSU was deleted "without prejudice." The subcommittee is considering whether to provide an augmentation of \$4.7 million (\$1.1 million at UC and \$3.6 million at CSU) to expand nursing enrollments.

Of the amount proposed, \$1.1 million would be appropriated to the UC for an additional 50 undergraduate (BSN) students and 32 master's level nursing students and 10 doctoral level nursing students. The CSU would use \$3.6 million to educate an additional 340 undergraduates in nursing.

Background: There are four types of pre-licensure educational programs: 1) Associate Degree in Nursing (ADN) programs at 2-year colleges, 2) Bachelors of Science in Nursing (BSN) programs at a 4-year university, 3) accelerated nursing programs at two-year colleges for individuals who are already licensed vocational nurses, and 4) entry-level master's (ELM) programs at a university for students that already hold a bachelor's or higher degree in a non-nursing field.

According to the Board of Registered Nursing (BRN), in 2007-08, California had a total of 131 pre-licensure nursing programs: 84 ADN programs, 32 BSN programs, and 15 ELM programs. While there has been an increase in available admission space, nursing programs continue to receive more applicants than programs can accommodate. In 2007-08, according to BRN, 20,402 qualified nursing program applicants (60.7%) were not accepted for admission.

The California Employment Development Department projects that the state will need approximately 240,000 RNs by 2014. According to 2007 estimates by the LAO, the supply of RNs in 2014 will total only about 228,000. Further, California does not appear to be keeping pace with the need for nursing faculty. According to BRN, in 2008 there were 170 vacant faculty positions within nursing education programs. In a 2009 report by the California Postsecondary Education Commission (CPEC), CPEC concluded that "in the absence of continuous legislative and institutional intervention, the demand for services provided by vocational and registered nurses over the next ten years will greatly outpace the supply of nurses anticipated to flow from postsecondary degree programs."

Staff recommends that this issue be held open, pending the May Revision.

IV. Capital Outlay.

As part of the 2009-10 Budget Act adopted by the Legislature in February 2009, \$774 million worth of higher education capital outlay projects funded with Lease-Revenue Bonds were deleted "without prejudice." Additional dollars (\$241 million) were appropriated from prior-year General Obligation Bonds to support 38 projects on UC, CSU and Community College campuses. In all but one case for UC/CSU, the dollars are being used to equip the buildings, thus finishing the projects. However, prior-year General Obligations bonds are being used to start 18 new projects at community colleges, though funding is not available to finish them.

Of the Lease-Revenue Bond (LRB) projects proposed, \$449 million would be appropriated to the UC and \$325 million to the CSU. Given that LRB debt service costs are repaid using General Fund appropriated directly to the university segments, the Community Colleges are excluded from the Administration's LRB proposal because their debt service payments would be deducted from their "share" of Proposition 98, thus putting their traditional education programs at risk.

The Governor's proposal relies heavily on lease-revenue bonds for funding projects at UC and CSU because, without the passage of a new general obligation bond measure, existing General Obligation (GO) bond dollars are essentially exhausted.

The questions before the subcommittee are: What are the pros and cons of using LRB to finance higher education facilities? Is this the best funding mechanism available? How do LRBs compare to General Obligation bonds?

Background. Like GO bonds, LRBs allow the state to borrow money to build facilities for a variety of purposes. The UC and CSU have the authority to issue their own LRB debt financing for projects that will generate revenue (i.e., student housing; parking). The cost of construction (including planning and equipment) is then borrowed from the marketplace using the future revenue stream of the facility as collateral. In the case of the proposal before the Legislature, the Administration proposes to borrow against the future General Fund "revenue stream" that would be appropriated to the university systems. LRB's are subject to legislative appropriation, while GO bonds must be approved first by 2/3 vote of the legislature, followed by a majority of the voting electorate. Further, financing projects with LRBs, is dependent upon the marketplace, but tends to cost slightly more than GO bonds.

Lease-Revenue Bonds Cannot Be Used for the Segments' Highest-Priority Capital Projects.

Due to requirements for selling the bonds, lease-revenue bonds are limited to funding new buildings, replacement buildings, additions, or significant renovations. Many of the segments' top priorities—such as seismic upgrades, minor renovations of older buildings, campus infrastructure, capital renewal (upgrades to building systems), and minor capital outlay—cannot be funded with lease-revenue bonds. Older buildings and outdated infrastructure typically represent the greatest safety risks on campuses. Lease-revenue bonds can be used to demolish and replace older buildings, but cannot be used for minor renovations

of the existing structures, which is often more cost efficient. Capital renewal and minor capital outlay are also cost efficient because they maintain existing buildings, extending their useful life. The Governor's 2009-10 proposal for UC and CSU includes two replacement buildings and one extensive renovation, but otherwise proposes new buildings. Meanwhile, seismic renovations, infrastructure projects, and other priority projects in the segments' capital outlay plans remain unfunded.

DOF Concluded Equipment Cannot Be Funded With Lease-Revenue Bonds.

As recently as the 2007-08 *Budget Act*, lease-revenue bonds were used to cover all phases of higher education projects—including equipment. However, DOF recently told state agencies that it will no longer allow lease-revenue bonds to finance the equipment phase of projects due to requirements in the underwriting process for the bonds.

The Governor proposes using lease-revenue bonds to fund the initial phases of 14 projects at UC and CSU, requiring that additional funds be made available for their equipment phases in subsequent years. The total estimated equipment costs for these 14 projects would be \$32 million. The 2008-09 *Budget Act* also used lease-revenue bonds to fund 11 projects at UC and CSU that will require an additional \$18 million for equipment. The UC indicated that some campuses would use gifts or other funds to cover their equipment costs. Since UC and CSU's general obligation bonds are depleted, the state voters would most likely need to approve additional general obligation bonds in order for the state to cover these equipment costs.

The LAO believes that the state should not invest in projects that lack sufficient funding for their completion. The LAO recommends that, should the Legislature approve LRB-funded projects, it require UC and CSU to commit to using nonstate funds for the equipment phases *prior* to appropriating lease-revenue funding for these new projects.

General Obligation Bonds Provide More Flexibility.

Relying on lease-revenue bonds to finance higher education capital outlay limits the range of projects which the state can support. In the long run, this financing method promotes costlier growth and replacement projects as opposed to renovations. Further, it also limits the ability of the state to support essential projects including seismic upgrades, campus infrastructure projects, and capital renewal. For these reasons, the LAO believes that, over the long term, the state would need the flexibility of general obligation bonds to continue meeting higher education's capital outlay demands. However, the LAO would note that in the current economic climate, moving projects forward on a short-term basis with LRB may allow the state to take advantage of low construction costs. This shorter-term method was employed by the Legislature in the 2008-09 *Budget Act*, whereby the state used LRBs for many UC and CSU projects in lieu of the Governor's original proposal to fund education projects with a new 2008 GO bond measure.

Related Legislation.

Related legislation includes Assembly Bill 220 (Brownley) which would place a Kindergarten through University GO bond for school facilities on the next statewide ballot, and Senate Bill 271 (Ducheny) which would place a Higher Education GO bond on the ballot.

Staff recommends that this issue be held open pending both the May Revision and the pending policy discussions surrounding placing a GO bond bill on the statewide ballot.

V. Consent

Staff recommends that the following items be approved:

- 1) Item 6440-402 Capital Outlay, University of California. *Authorize Garamendi financing, Per April Finance Letter (Issue 001), Related to the construction of projects on the UC Santa Barbara and UC San Diego campuses.*
- 2) Item 6440-491 Capital Outlay, University of California. *Per April Finance Letter (Issue 001), Reappropriate funds for 14 capital projects (numbered 1-14) due to delay in Pooled Money Investment Board financing.*
- 3) Item 6440-492 Capital Outlay, University of California. *Per April Finance Letter (Issue 001), Extend period of liquidation for 24 capital projects (numbered 1-24) due to delay in Pooled Money Investment Board financing delays.*
- 4) Item 6610-491 Capital Outlay, California State University. *Per April Finance Letter (Issue 001), Reappropriate funds for 24 capital projects (numbered 1-24) due to delay in Pooled Money Investment Board financing.*
- 5) Item 6610-492 Capital Outlay, California State University. *Per April Finance Letter (Issue 001), Extend period of liquidation for 9 capital projects (numbered 1-9) due to delay in Pooled Money Investment Board financing delays.*
- 6) Item 6870-001-0001 State Operations, California Community Colleges. *Per April Finance Letter (Issue 001), Increase reimbursements to reflect interagency agreement with the California Emergency Management Agency. \$400,000*
- 7) Item 6870-001-0001 State Operations, California Community Colleges. *Per April Finance Letter (Issue 004), Increase reimbursements to reflect receipt of additional Workforce Investment Act (WIA) funds from the Employment Development Department (EDD). \$600,000*
- 8) Item 6870-111-0001 Local Assistance, California Community Colleges. *Per April Finance Letter (Issue 003). Increase reimbursements to reflect the receipt of additional funds from the Carl D. Perkins Vocational and Technical Education Act. \$19,546,000*
- 9) Item 6870-111-0001 Local Assistance, California Community Colleges. *Per April Finance Letter (Issue 005). Increase reimbursements to reflect the receipt of continuing WIA funds for use in the nursing program. \$6,000,000*
- 10) Item 6870-111-0001 Local Assistance, California Community Colleges. *Per April Finance Letter (Issue 006). Increase reimbursements and adopt provisional language to reflect the receipt of WIA funds for use in allied health programs. \$2,000,000*

- 11) Item 6870-111-0001 Local Assistance, California Community Colleges. *Per April Finance Letter (Issue 007). Increase reimbursements and adopt provisional language to reflect the receipt of continuing WIA funds for use in programs to train Corpsmen/Paramedics for Nursing careers. \$1,200,000*
- 12) Item 6870-301-6028 Capital Outlay, California Community Colleges. *Per April Finance Letter (Issue 301). Revert authority for preliminary plans and working drawings for the San Diego City College Child Development project at district's request. \$594,000*
- 13) Item 6870-497 Capital Outlay, California Community Colleges. *Per April Finance Letter (Issue 303). Revert project savings from 11 facilities projects. \$13,321,000*
- 14) Item 6870-497 Capital Outlay, California Community Colleges. *Per April Finance Letter (Issue 303). Revert construction and equipment authority for the Santa Barbara City College High Technology Center. \$8,150,000*
- 15) Item 6870-301-6049 Capital Outlay, California Community Colleges. *Per April Finance Letter (Issue 304). Reduce appropriation for Santa Barbara City College High Technology Center by the \$8,150,000, as noted above.. \$22,522,000*
- 16) Item 6610-490 Capital Outlay, California Community Colleges. *Per April Finance Letter (Issue 305), Reappropriate funds for 68 capital projects due to delay in Pooled Money Investment Board financing.*
- 17) Item 6610-491 Capital Outlay, California Community Colleges. *Per April Finance Letter (Issue 302), Extend liquidation period for two years for 49 capital projects due to delay in Pooled Money Investment Board financing.*
- 18) Item 6870-493 Reappropriation, California Community Colleges. *Per April Finance Letter (Issue 002). Reappropriate and adopt accompanying provisional language related to federal Department of Labor funds for the Logistics Program. \$100,000*